COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE TARIFF FILING OF MIKE LITTLE GAS COMPANY, INC. TO REVISE THE PURCHASED GAS ADJUSTMENT CLAUSE	)))	CASE NO. 91-134

O R D E R

On March 29, 1991, Mike Little Gas Company, Inc. ("Mike Little") filed with the Commission a tariff to revise its purchased gas adjustment ("PGA") clause. In an addendum to its proposed tariff, Mike Little requested an increase in rates effective January 1, 1991 pursuant to Case No. 90-077-B.[1] On May 1, 1991, the Commission issued its Order suspending the tariff in order to determine the reasonableness of the proposed revision. On July 11, 1991, the Commission issued its Order requesting further information concerning the tariff filing. On July 31, 1991, Mike Little filed its response to the Commission's Order.

After reviewing the record in this case and being otherwise sufficiently advised, the Commission finds that:

1. Mike Little's proposed increase of 3.66 cents per Mcf of gas sold from and after January 1, 1991 should be denied. Such an increase in rates clearly constitutes retroactive ratemaking.

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[1] Case No. 90-077-B, The Notice of Purchased Gas Adjustment Filing of Mike Little Gas Company, Inc., Order dated February 1, 1991.

Retroactive ratemaking appears when a rate to be collected in the future is designed to recoup past losses. Moreover, Mike Little's PGA clause in effect at the time the Order in Case No. 90-077-B was issued did not provide for the recovery of line loss and Mike Little did not avail itself of its right to rehearing or appeal of that case.

2. The following changes in Mike Little's proposed tariff should be made:

a. Proposed Purpose of PGA Clause section

This section is inappropriate to be included as part of the tariffs and terms of service of a utility. It is unnecessary to explain in a tariff the purpose or intent of a utility in filing any tariff provision; and, accordingly, this section should not be approved.

b. Proposed Billing section

(1) Definition a., which defines the "Gas Cost Recovery Rate," should be approved with the exception of the Heating Content Adjustment provision;

(2) Definition b., which defines the "Expected Gas Cost Adjustment," should specify that expected gas cost for the next calendar quarter should be based on 12 months of actual usage. The definition should be expanded to provide for the calculation of the average expected gas cost, as calculated on an annualized basis, with a provision for the recovery of actual line loss with a maximum of 5 percent. Mike Little's proposal for an automatic adjustment for 5 percent line loss should be disapproved because actual line loss could be lower than 5 percent;

(3) Definition c., which defines the "Actual Cost Adjustment," violates KRS 278.180 which requires 30 days notice be given for a change in rates. Using the calculation methodology proposed by Mike Little would certainly ensure timely tracking of gas costs, but the rates approved and filed for Mike Little would never be charged as set out in its tariff. Mike Little's proposed methodology also inappropriately provides for an automatic recovery of 5 percent line loss; actual line loss could be lower. The methodology for calculating the actual cost adjustment should be substantially the same as that approved for all other utilities with quarterly adjustment clauses as set out in Appendices A and B to this Order;

(4) Definition d., which defines the "Heating Content Adjustment," should be disapproved. Changes in the BTU content of purchased gas are inherent in the expected gas cost and the actual cost adjustment;

(5) Definition e., which defines the "Supplier Refund Adjustment," is also in violation of KRS 278.180 and inappropriately provides for an automatic adjustment for 5 percent line loss. The refund adjustment should be a known component of Mike Little's rates, as calculated in Appendix B herein and should provide for the payment of interest.

3. In preparing and filing future applications pursuant to its PGA as modified herein, Mike Little should use the format contained in Appendix B.

4. Mike Little's revised PGA clause, as modified herein and set out in Appendix A of this Order, is fair, just, and

reasonable, in the public interest, and should be effective on and after the date of this Order.

IT IS THEREFORE ORDERED that:

1. The increase in rates proposed in the addendum to Mike Little's PGA clause be and it hereby is denied.

2. Mike Little's proposed PGA be and it hereby is denied.

3. The PGA clause in Appendix A, attached hereto and incorporated herein, is fair, just, and reasonable, and is hereby approved effective on and after the date of this Order.

4. For all future PGA applications filed pursuant to the tariff approved herein, Mike Little shall use the format prescribed in Appendix B, attached hereto and incorporated herein.

5. Within 30 days of the date of this Order, Mike Little shall file its revised tariff in conformity with Appendix A.

Done at Frankfort, Kentucky, this 30th day of September, 1991.

PUBLIC SERVICE COMMISSION

Chairman

Vice Chairman

Commissioner

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 91-134 DATED 9/30/91

PURCHASED GAS COST ADJUSTMENT CLAUSE

Determination of GCRR

The Company shall file a quarterly report with the Commission which shall contain an updated Gas Cost Recovery Rate (GCRR), as calculated in accordance with the provisions set forth in the Definitions Section hereinafter, and which shall be filed at least 30 days prior to the beginning of each calendar quarter. The GCRR shall become effective for billing for service rendered on or after the first day of each calendar quarter.

Billing

The GCRR to be applied to bills of customers shall equal the sum of the following components:

GCRR = EGCA + ACA + RA

The GCRR will be added to or subtracted from the base rates prescribed by the Commission Order on the Company's latest general rate case and will be included in the tariff rates stated on each applicable rate sheet within this tariff.

Definitions

For purposes of this tariff:

a. The "Gas Cost Recovery Rate" (GCRR) represents the adjustment calculated quarterly at a time 30 days prior to the beginning of the next calendar quarter and which is to be used for all gas sales during the next calendar quarter. It is the sum of the Expected Gas Cost Component plus the Actual Cost Adjustment plus the Supplier Refund Adjustment as defined and calculated as follows in (b) - (e) hereinafter; i.e., GCRR = EGCA + ACA + RA.

b. The "Expected Gas Cost Adjustment" (EGCA) on a dollar-per-Mcf basis represents the average expected cost of purchased gas for the next calendar quarter based on 12 months of actual usage. The average expected cost is the cost of purchased gas which results from the application of supplier rates currently in effect, or reasonably expected to be in effect during the calendar quarter, on purchased volumes for the most recently available 12-month period, divided by the corresponding sales volume. In the event that line loss exceeds 5 percent, purchased volumes for the 12-month period shall be calculated as: sales volumes + .95.

Where the calculations require the use of volumes used during a given period, and those volumes did not exist for a particular source for the entire period, or the Company expects the volumes to change substantially, the Company may make appropriate adjustments to its calculations. Any adjustment of this type shall be described in the quarterly Gas Cost Recovery Rate application.

c. The "Actual Cost Adjustment" (ACA) on a dollar-per-Mcf basis compensates for differences between previous quarters' expected gas cost and the actual cost of gas. The ACA shall equal the sum of the ACA for the reporting period and for the 3 preceding calendar quarters. This may also be used to compensate for any over- or under-recoveries remaining from previous actual or refund adjustments after a 12-month period.

d. The "Supplier Refund Adjustment" (RA) on a dollar-per-Mcf basis reflects the refunds received from suppliers during the reporting period, plus interest at a rate equal to one-half of one percent below the average 90-day Commercial Paper Rate for the 12-month period. In the event of any large or unusual refunds, the Company may apply to the Public Service Commission for the right to depart from the refund procedure herein set forth.

e. "Calendar Quarter(s)" means each of the four 3-month periods of (1) May, June and July; (2) August, September and October; (3) November, December and January; and (4) February, March and April.

f. "Reporting Period" means the 3-month accounting period that ended approximately 60 days prior to the filing date of the updated GCRR for the calendar quarters ended January 31, April 30, July 31 and October 31 of each year.

g. "Next Calendar Quarter" means the calendar quarter beginning approximately 30 days from the required filing date of the updated GCRR.

<u>Interim Gas Cost Adjustments</u>

Should any significant change in supplier rate occur, the Company may apply to the Public Service Commission for an interim purchased gas cost adjustment in addition to the regular quarterly Purchased Gas Cost Adjustment Clause filings.

MIKE LITTLE GAS COMPANY, INC.

**QUARTERLY REPORT OF GAS COST
RECOVERY RATE CALCULATION**

Date Filed:

Date Rates to be Effective:

Reporting Period is Calendar Quarter Ended:

SCHEDULE I

GAS COST RECOVERY RATE SUMMARY

Component		Unit	Amount
Expected Gas Cost Adjustment	(EGCA)	$/Mcf	
+ Refund Adjustment	(RA)	$/Mcf	
+ Actual Cost Adjustment	(ACA)	$/Mcf	_______
= Gas Cost Recovery Rate	(GCRR)	$/Mcf	

GCRR to be effective for service rendered from ___________ to _______________.

A. EXPECTED GAS COST CALCULATION	Unit	Amount
Total Expected Gas Cost (Schedule II)	$	
+ Sales for the 12 months ended ___________	Mcf	________
= Expected Gas Cost Adjustment (EGCA)	$/Mcf	

B. REFUND ADJUSTMENT CALCULATION	Unit	Amount
Supplier Refund Adjustment for Reporting Period (Sch. III)	$/Mcf	
+ Previous Quarter Supplier Refund Adjustment	$/Mcf	
+ Second Previous Quarter Supplier Refund Adjustment	$/Mcf	
+ Third Previous Quarter Supplier Refund Adjustment	$/Mcf	________
= Refund Adjustment (RA)	$/Mcf	

C. ACTUAL COST ADJUSTMENT CALCULATION	Unit	Amount
Actual Cost Adjustment for the Reporting Period (Schedule IV)	$/Mcf	
+ Previous Quarter Reported Actual Cost Adjustment	$/Mcf	
+ Second Previous Quarter Reported Actual Cost Adjustment	$/Mcf	
+ Third Previous Quarter Reported Actual Cost Adjustment	$/Mcf	________
= Actual Cost Adjustment (ACA)	$/Mcf	

SCHEDULE II

EXPECTED GAS COST ADJUSTMENT

Actual* Mcf Purchases for 12 months ended ____________________

(1) Supplier	(2) Dth	(3) Btu Conversion Factor	(4) Mcf	(5)** Rate	(6) (4)x(5) Cost
Totals					

Line loss for 12 months ended ______________ is ____% based on purchases of ________ Mcf and sales of ________ Mcf.

	Unit	Amount
Total Expected Cost of Purchases (6)	$	
+ Mcf Purchases (4)	Mcf	
= Average Expected Cost Per Mcf Purchased	$/Mcf	
x Allowable Mcf purchases (must not exceed Mcf sales + .95)	Mcf	
= Total Expected Gas Cost (to Schedule IA.)	$	

*Or adjusted pursuant to Purchased Gas Cost Adjustment Clause and explained herein.
**Supplier's tariff sheets or notices are attached.

SCHEDULE III

SUPPLIER REFUND ADJUSTMENT

Details for the 3 months ended ____(reporting period)____

Particulars	Unit	Amount
Total supplier refunds received	$	
+ Interest	$	________
= Refund Adjustment including interest	$	
+ Sales for 12 months ended ______________	Mcf	________
= Supplier Refund Adjustment for the Reporting Period (to Schedule IB.)	$/Mcf	

SCHEDULE IV

ACTUAL COST ADJUSTMENT

For the 3 month period ended ____(reporting period)____

Particulars	Unit	Month 1 (____)	Month 2 (____)	Month 3 (____)
Total Supply Volumes Purchased	Mcf			
Total Cost of Volumes Purchased	$			
+ Total Sales (may not be less than 95% of supply volumes)	Mcf			
= Unit Cost of Gas	$/Mcf			
- EGCA in effect for month	$/Mcf			
= Difference [(Over-)/Under-Recovery]	$/Mcf			
x Actual sales during month	Mcf			
= Monthly cost difference	$			

	Unit	Amount
Total cost difference (Month 1 + Month 2 + Month 3)	$	
+ Sales for 12 months ended ____________	Mcf	
= Actual Cost Adjustment for the Reporting Period (to Schedule IC.)	$/Mcf	